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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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SPECIAL ARTICLE. CHINESE INDUSTRIAL DEVELOPMENT BEING  
CONCENTRATED IN MANCHURIA . . . . . Page 18

Peiping and Moscow are stressing the industrialization of Manchuria as the first stage of a long-term program for the industrial development of all China.

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## THE SOVIET WORLD

Moscow attempted again this week to hamstring Western defense efforts while extolling the virtues of its own peaceful mission. In notes to Turkey, Greece and the Netherlands, the USSR protested against base arrangements, which have "nothing to do with defense," but which are "calculated to involve other countries in a military bloc." All three notes were similar in tone and content to previous Soviet attacks on NATO and American bases and were apparently timed to provide a propaganda background for the Geneva conference.

Ever since the concept of "instant retaliation" was enunciated by Secretary Dulles on 12 January, Communist propaganda has attacked what it calls American stress on the necessity of conducting negotiations only from a position of strength. It has countered with claims that the USSR possesses atomic and hydrogen weapons, warning of the dangers of modern warfare for the people of the United States and Europe.

To regain the propaganda initiative for Moscow's European security program, the Soviet press paid increasing attention to the proposals made by Molotov at Berlin and highlighted in the electoral speeches of Malenkov and Molotov. Ambassador Bohlen believes this campaign is in part designed to undo Molotov's Berlin blunder of suggesting the United States play only the role of an observer in such a pact, a provision which Molotov has since intimated is subject to re-examination. Bohlen believes that the Kremlin may seek to reopen the question by submitting a revised plan or perhaps by proposing at Geneva a new four-power or European conference on European security.

Inside the Soviet Union the agricultural program, and consequently the over-all Soviet consumer goods program, is in trouble. The measures which the government inaugurated last September to "ensure a rapid upsurge in agricultural production" have so far been too little and too late.

Last fall Soviet officials apparently premised their programs for other branches of agriculture on the assumption that the grain situation was relatively satisfactory. It is now clear, however, that the level of Soviet grain production is not up to the rising requirements for bread, livestock feed, state reserves, and exports.

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Khrushchev has officially blamed the present situation on the State Planning Committee (Gosplan) and the ministers of agriculture and state farms. In his 23 February report to the plenum of the party's central committee, he revealed that the government had lost confidence in several of the top-level planners and had dismissed the agricultural director of Gosplan. He stated that discussions with republic and oblast officials revealed shortcomings which the central committee regarded as so serious as to require further discussion in plenum. Khrushchev particularly flayed members of the bloated Soviet agricultural bureaucracy, "the paper shufflers and the committee sitters."

He indicated that the program of reclaiming the new lands for grain output necessitates transferring some of the most efficient chairmen of existing state farms together with their best technical cadres and that the new lands this year would receive the greater part of all deliveries to agriculture of tractors, combines, and other equipment.

The current measures to improve grain production, superimposed on the September measures to boost output of other agricultural products, stretch thin Soviet resources of agricultural management, labor and equipment. Prospects seem far from bright either for the agricultural program or its administrators. Ambassador Bohlen believes that Khrushchev's own position may be threatened as a result of the shortcomings.

The agricultural problem has also been the main theme of the two Satellite party congresses just concluded. Like the earlier Bulgarian congress, the Polish party congress concentrated on the agricultural problem and emphasized the necessity of strengthening party control in the rural areas.

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## ARAB-ISRAELI DEVELOPMENTS THREATEN SHARETT GOVERNMENT

Israeli opinion has been so stirred by the murder of 11 Israelis in the Negev desert on 17 March that extremist elements inside and outside the government are intensifying their pressure on Prime Minister Sharett to take forceful action against the Arab states.

Sharett, a moderate in his dealings with the Arab states, will resist any effort to initiate major hostilities against either Jordan or Syria. He may be compelled, however, to adopt a more warlike posture or face possible resignation if he fails to obtain strong international action against the Arabs.

Sharett has already made some concessions to extremist pressure. He accused Jordan of official responsibility for the massacre on 17 March, even though there is no evidence from what country the murderers came. The abrupt departure on 23 March of the Israeli member of the Israeli-Jordan Mixed Armistice Commission, following his outburst against the American chairman for failure to support Israeli accusations against Jordan, reflects the present desperate mood of Israeli circles who see the country increasingly isolated in world affairs.

Imminent American arms aid to Iraq, as well as possible Iraqi participation in the Turkish-Pakistani arrangement, is seen by Israel as strengthening its bitterest enemies. Western coolness toward a UN resolution criticizing Egypt's interference with Israeli-bound shipping through the Suez Canal is viewed as appeasement of the Arabs at Israel's expense. The overthrow of Shishakli in Syria is believed to open the way for an Iraqi-Syrian union, which is probably more feared by Israel than any other political possibility in the area.

The episode of 17 March is seen as an Arab crime proving the futility of Israeli moderation rather than just another incident in the six years of armistice violations by the Arabs. According to the American chargé in Tel Aviv, Israel is basically divided between the policy of forcefully demonstrating its determination to defend itself and the policy of restraint publicly enunciated by Sharett on 16 March.

The split on this question extends into the government. Minister of Defense Lavon, Chief of Staff Dayan, and ex-prime minister Ben Gurion, who retains strong influence, are encouraged by the popular mood to take forceful action.

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[REDACTED]

In the face of such sentiment, Sharett demands strong American and UN condemnation of Jordan and pressure on Jordan to agree to high-level armistice discussions. Sharett's position with the public and within his own party may be determined by his success or failure in these endeavors. [REDACTED]

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Accordingly, if international support is not forthcoming, Sharett may feel that the only way he can maintain himself is to go along with a policy of more reprisals, more drastic treatment of infiltrators, increased activity in the demilitarized zones--including work on the diversionary canal and occupation of El Auja on the Egyptian frontier--and the exploitation of instability in the Arab countries. Such an approach could lead to more trouble with the Arabs and consequently greater pressure from Israeli extremists for forthright military action.

On the other hand, if Sharett obtains from the West the kind of support he wants, the Arab states will be further convinced of a pro-Israeli bias in the West. They will be confirmed in their fear of Israeli expansionism and may feel forced to express their hostility to Israel by acts of terrorism and increased economic warfare.

The present dilemma is likely to tax to the utmost the ability of the West to maintain the tenuous armistice arrangements, which would have broken down long ago if the West had not continually intervened.

American consul general Tyler in Jerusalem reports that "the whole area is more tense than at probably any time for the past three years awaiting the next Israeli move."

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## ECONOMIC PROBLEMS HOLD SPOTLIGHT AT CARACAS CONFERENCE

The Latin American delegates at the Caracas conference, now scheduled to adjourn by 30 March, have devoted their attention mainly to economic issues. When the United States seized the initiative on a Chilean proposal for a special economic conference later this year, the move helped secure committee approval for an anti-Communist resolution, but did not stem the unprecedented flow of resolutions critical, directly or by implication, of American foreign economic policy.

Economic resolutions approved thus far by nearly unanimous votes in committee include one demanding compensation for shipments to the Orbit blocked by Washington, a warning to the United States against dumping agricultural surpluses, a call for lifting all import restrictions on raw materials, and a proposal for a hemisphere equivalent of the Commodity Credit Corporation. Soviet Orbit propaganda has generally portrayed the conference as a "revolt" against Washington's "exploitation."

Speeches in the plenary sessions as well as in the political and economic committees have stressed stabilization of the hemisphere's economy as the key to all hemisphere problems, including Communism. Once the question of priorities had been temporarily resolved by the proposal for a special economic conference, however, and assurances had been given that the United States would impose no further restrictions on the functions of the Export-Import Bank or on coffee and wool prices, the anti-Communist resolution mustered 17 out of a possible 20 votes in committee.

Subsequent developments may have set the stage for more enthusiastic and possibly added support in the final voting. Among these developments are indications that Argentina, which abstained in the committee vote, may be considering supporting the resolution in plenary session. There is also a growing possibility that a restatement of the inter-American community's "guiding principles," slated to be called the Declaration of Caracas, may be interpreted as offsetting some of the "interventionist" and other features objectionable to Latin Americans.

Committee approval of three anticolonial resolutions--all opposed by the United States and two recommending involvement of the UN--may also have removed certain emotional blocks against approving the anti-Communist proposal. Various

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countries, however, may yet attach reservations to their approval of the resolution, and Mexico and Guatemala appear unwilling to reverse their previous position.

Continued full-scale activity in the economic committee, despite the promise of a special conference in Brazil next November, suggests that the Latin American nations fear this meeting may be postponed indefinitely as was the one agreed on at the 1948 conference in Bogota. On the other hand, it may indicate that they merely wish to make their position clear to the United States Congress in its current deliberations on foreign economic policy. Despite this continuing agitation, however, there is some evidence of a nascent realization of Washington's inability to solve all hemisphere problems single-handed.

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**BURMA RELYING ON MILITARY FORCE TO SOLVE  
CHINESE NATIONALIST PROBLEM**

Burma will apparently no longer rely on international efforts to solve the problem of the remaining Chinese Nationalists within its borders, but will use force to deal with them. To eliminate them will tax the country's limited armed forces and reduce the pressure on Communist and other insurgents (see map, p. 12).

On 1 March, one day after the expiration of the general cease-fire agreement with the joint evacuation committee, the Burmese army launched a limited offensive against Nationalist troops located southwest of the withdrawal area. Although satisfactory progress was being made in the evacuation effort, the War Office justified its action by pointing to the imminence of the rainy season in May. American officials in Rangoon were assured that the safety areas set up under the more limited cease-fire agreement in effect beginning 1 March would not be attacked.

The Burmese government refused to call off the offensive despite requests by both the joint evacuation committee of Thai, Chinese, and American representatives and by the American ambassador in Rangoon. The only effect of the requests was to add another irritant to American relations with Burma.

The evacuation from northeastern Burma of all the Chinese who had agreed to withdraw was virtually completed by 18 March. The joint committee, which originally included a Burmese representative, had by that time supervised the withdrawal of approximately 4,800 troops and 800 dependents, of the estimated 12,000 in Burma. In addition, a substantial number of arms including machine guns and infantry mortars were surrendered.

The committee is now arranging for the evacuation from southeastern Burma of another 1,500 Chinese who have been operating with the Karen insurgents. The only remaining obstacle to this withdrawal is Thailand's reluctance to participate in the operation unless Burma fully guarantees the safety of the border assembly area.

Rangoon's apparent unconcern for the effect the recent attack might have had on the evacuation effort suggests that it is willing to forego further UN-sponsored attempts to settle the Nationalist problem. In addition to the four

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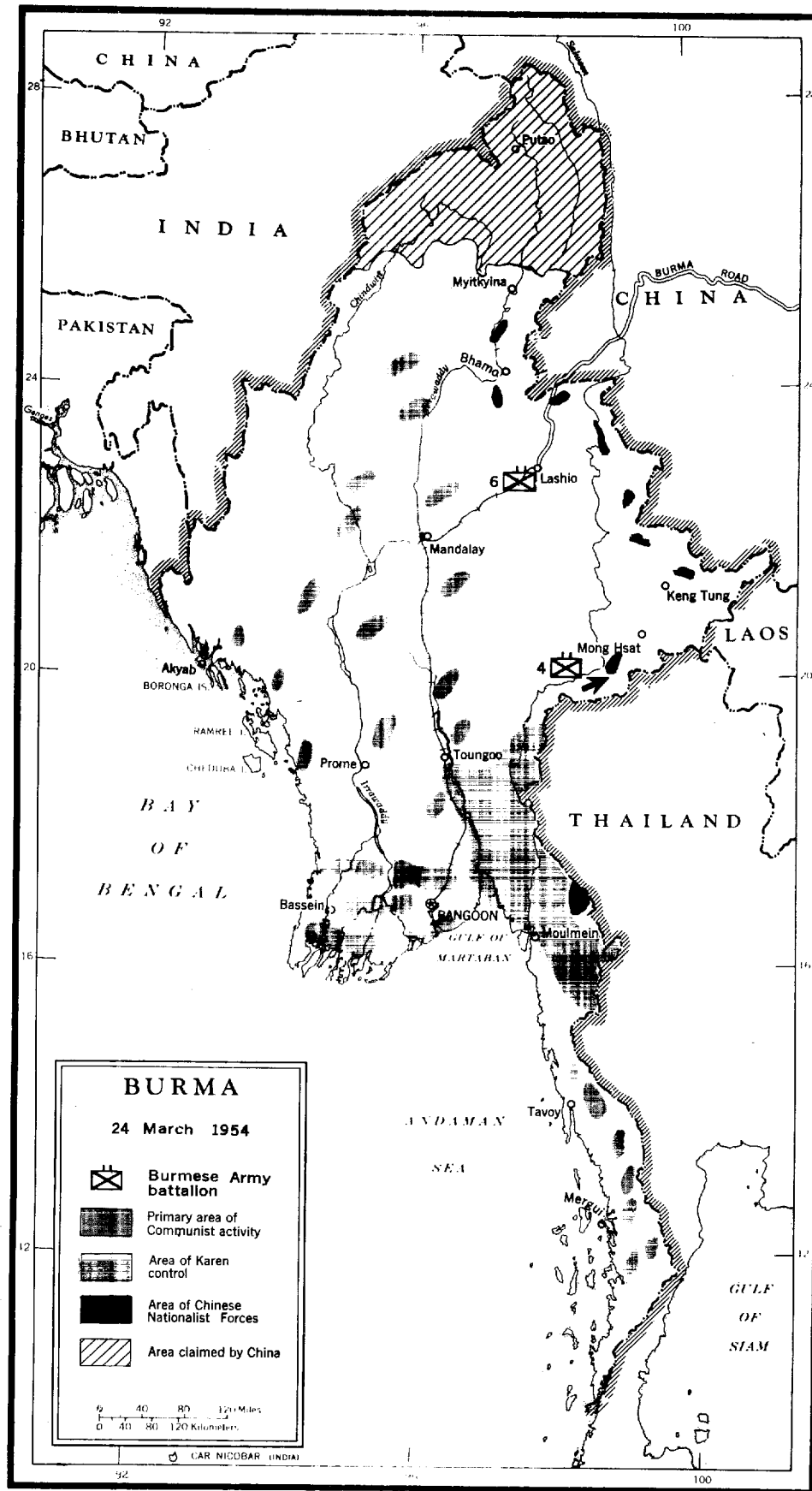
battalions committed in the current offensive, the War Office reportedly has six battalions, about 4,200 men, available in the Lashio area in northeastern Burma which could be used against the estimated 6,000 Chinese Nationalists remaining.

The Nationalist potential has been greatly reduced as a result of the evacuation. [REDACTED]

[REDACTED] As long as the guerrillas remain active in northeastern Burma, however, they may be able to attract scattered recruits from Yunnan Province in Communist China. They are also well situated to intrigue with various ethnic minority groups who have long-standing grievances against the central government.

Rugged terrain and the extensive dispersal of the Chinese Nationalists will force the commitment of a disproportionate share of the Burmese army's 41 infantry battalions if the guerrillas are to be finally eliminated. Meanwhile, the Communist insurgents will continue to be relatively free from military pressure, as they have been for nearly two years as a result of the priority given to containing the Chinese Nationalists.

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## FUEL AND POWER SHORTAGES THREATEN "NEW COURSE" IN SATELLITES

Chronic difficulties in fuel and power output still retard Satellite industrial growth and threaten the program to raise living standards. To meet this danger, large capital investments have been scheduled in these industries, and special incentives for labor have been ordered (see map, p. 15). Steadily increasing requirements combined with basic limitations in natural resources, a lack of capital equipment, and low worker productivity make it unlikely that fuel and power shortages will be overcome by 1956, when new five-year plans are to begin.

Eastern Europe relies almost entirely on thermal electric power because the development of most of its hydroelectric potential would not be economically feasible. The lack of high-grade coal, except in Poland and Czechoslovakia, intensifies the problem. Poland, the only country with a large surplus of coal, must deliver about 75 percent of it to the USSR and the West to pay for necessary imports, thereby limiting its exports to other Satellites.

Since production of necessary mining equipment is only beginning in the Satellites, they have been forced to rely on Soviet deliveries. These have been inadequate to replace obsolete equipment, let alone provide machinery for expanding output.

Peasants and workers have been reluctant to go into the mines because of hazardous working conditions and the low status of miners. Communist propaganda has tried for years to combat this attitude, but without much success, and a number of countries must rely on forced labor and military units to work the mines. Preferential pay rates and special bonuses have failed as incentives, principally because of the lack of foodstuffs, housing, and consumer goods for the miners to buy. The result has been a high turnover rate, widespread absenteeism, and low productivity.

Under the "new course" Satellite regimes are trying even harder to make mining an attractive occupation, but the success of the measures depends on the availability of foodstuffs and consumer goods. Since only minor increases in these fields appear likely so far, a major portion of the additional production would have to be allocated to the miners in order materially to improve conditions.

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These difficulties have resulted in consistent under-fulfillment of coal production plans in several Satellites. Others have reached tonnage output targets only by mining inferior coal. Chronic coal shortages have caused hardships each winter, as a rigid system of allocation has limited household consumption to amounts below normal needs.

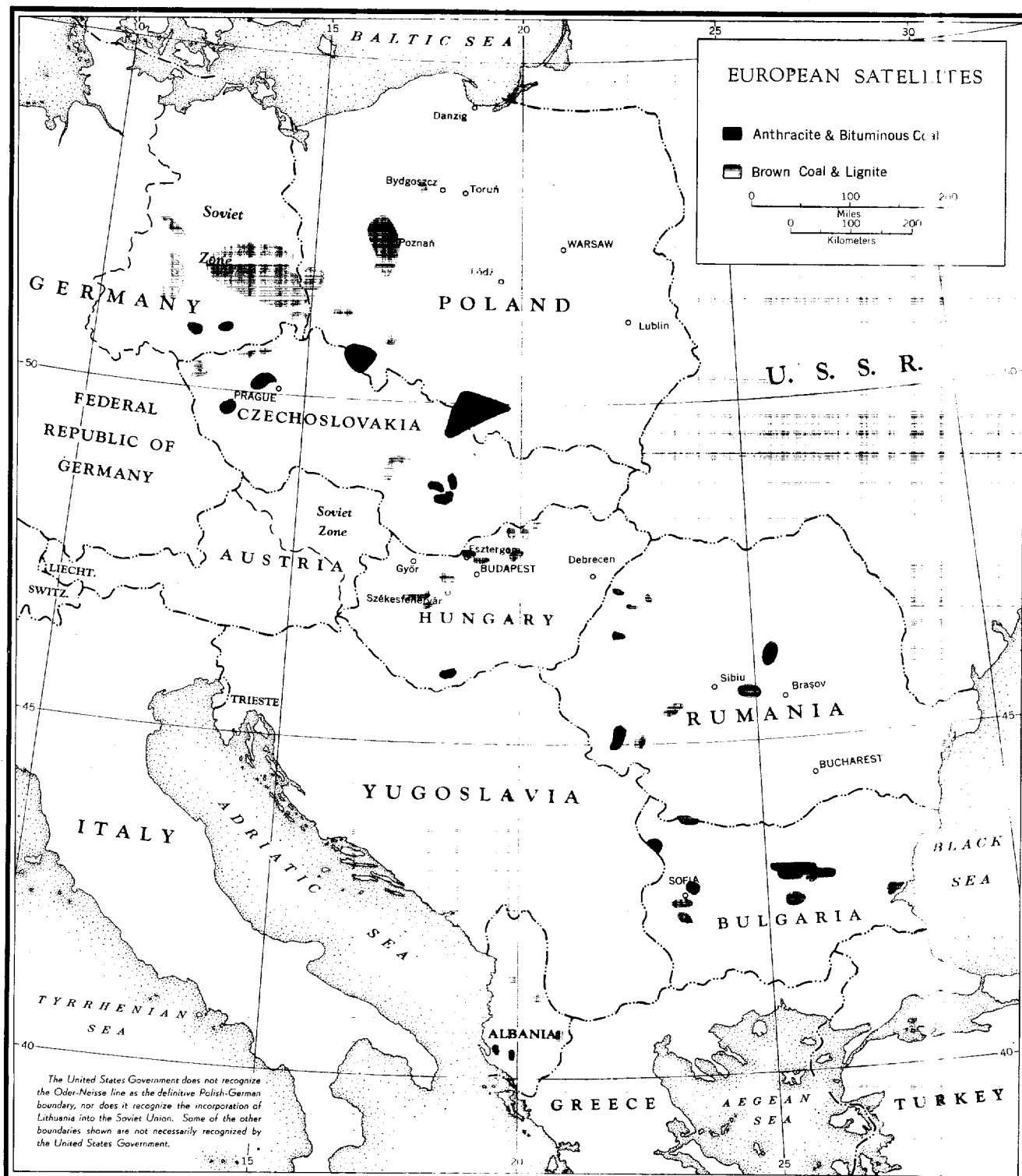
These shortages have sometimes affected supplies for power stations, but power production has suffered primarily from lack of adequate plants, generating equipment, and power lines. Satellite production of such equipment is far below requirements, and the disparity has not been made up by Soviet exports. The Satellites have been compelled to overwork existing equipment to maintain industrial production, and this has caused repeated breakdowns. The shortages of power have necessitated rationing to both industrial and household consumers and contributed to a slowing down of industrial growth.

In their speeches inaugurating the "new course," Satellite leaders attempted to come to grips with these problems. Generally lower rates of industrial growth scheduled for 1954 and 1955 will slow the increase in demand for fuel and power. Large funds are being allocated for investment to raise fuel and power production. Czechoslovakia went so far recently as to ask the UN's Economic Commission for Europe for Western help in developing its coal industry.

A few power stations are nearing completion. It will be several years, however, before the new investments can be translated into expanded output.

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1953	Albania	Bulgaria	Czechoslovakia	East Germany	Hungary	Poland	Rumania	Total	USSR
Hard Coal									
Brown Coal (thousand tons)	0	475	20,341	3,000	2,130	89,000	250	115,196	228,000
Electric Power (billion kwh)	135	7,500	34,322	171,000	19,160	5,650	5,740	243,507	92,000
	60	1,550	12,700	25,600	5,010	14,350	3,410	62,680	133,000



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## MALENKOV REGIME ENLARGES ROLE OF CENTRAL COMMITTEE

The prestige of the Soviet Communist Party's central committee has been greatly increased as a result of the Malenkov regime's extensive propaganda campaign for collectivity of leadership. While the Communist description of the committee as the leading force in Soviet society today is far from correct, this hitherto moribund body apparently has been somewhat revitalized in the past year. Six announced plenary meetings of the central committee have been held since March 1953, although the rules passed at the 1952 party congress called for only two a year.

The committee's most important function at present apparently is to provide a forum for exchange of information between the top leadership and regional party bosses, many of whom are central committee members. In this way the committee is used as a tool in the regime's drive to maintain closer contact with the people and check on the new program's local progress. The most recent plenum was devoted to a discussion of agricultural problems providing an additional opportunity for the top leadership to assess the problems and successes of its program throughout the country.

Central committee sessions are also used to proclaim and explain decisions to secondary leaders. Khrushchev's speech at the February plenum spelled out the motives behind the new program for increasing grain production and cultivating reclaimed land and outlined the specific direction that local activity was to take. Last July a meeting was called to apprise officials of Beria's fall before it was announced publicly and to outline some of the measures to be taken on a local level to liquidate his influence.

The central committee has apparently also been permitted to play a small role in the enunciation of policy. Thus the new agricultural program was introduced at a plenum of the central committee in September and published as the decision of that body. In the past, such measures had usually emerged from the state apparatus or over the names of both the central committee and an appropriate government body.

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It appears, furthermore, that the central committee was not expected simply to rubber-stamp the presidium's proposals as presented by Khrushchev. He himself stated that he expected discussion and perhaps amendment of the report, and he specifically mentioned an anticipated "exchange of opinions" on one of his proposals. This measure, which called for sending some 50,000 urban Communists to permanent work in rural areas, did not appear as such in the final decree, suggesting that it was modified as a result of central committee discussion.

Yet while the Soviet leaders may feel it advisable to get sanction for some of their actions from the central committee, officially the ruling group in the party, they have not allowed that body to shape policy. The extensive party and government reorganizations approved by the first plenum, held in March 1953, could hardly have been worked out by so large a group as the central committee, and the inclusion of the Council of Ministers and the presidium of the Supreme Soviet in the meeting would indicate that what took place was merely a formal act of acceptance for a plan decided on elsewhere.

The February plenum's resolution on the cultivation of reclaimed lands was adopted several days after the first youth group had departed for the areas in question, and it was in July that a plenum approved the condemnation of Beria, following a decision on this matter taken by the presidium on 26 June.

It therefore appears that the central committee's policy-making powers are still very slight and that it functions primarily as a transmission belt between top leaders and local party officials and as a device for identifying the latter more closely with the government's policy decisions. This in itself, however, is a marked departure from postwar Stalinist practice which seldom gave lower officials the satisfaction of even this degree of participation in the decision-making process.

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SPECIAL ARTICLE

CHINESE INDUSTRIAL DEVELOPMENT BEING  
CONCENTRATED IN MANCHURIA

Peiping and Moscow are stressing the industrialization of Manchuria as the first stage of a long-term program for the industrial development of all China (see map, p. 20).

With less than ten percent of the country's population, the Northeast Area--as Manchuria is officially designated--already has roughly half of China's industries and produces nearly 50 percent of its industrial output. Here are 40 percent of China's railway mileage, 40 percent of its electric power capacity, the only large iron and steel center--at Anshan--and its largest arsenal--at Mukden. Textile production is relatively low, with 10 percent of the country's capacity located here (see table, p. 21).

Peiping has clearly indicated that the Northeast will continue for some years to have priority over the rest of China for industrial development funds. Most of the 141 Soviet aid projects--those to be build or rebuilt by the USSR through 1959--are or will be located in Manchuria. The Northeast is described as the "crucial point" and "key region" of the first five-year construction plan. Of about 50 identified Soviet projects, less than ten have been started outside the Northeast.

Peiping and Moscow are concentrating their current investment in Manchuria primarily because it is China's only area with adequate subsidiary industries, electric power, and resources for rapid industrialization. The area also has many plants, damaged in World War II or looted by the Soviet army, which can be rebuilt.

The USSR's strategic interest in the Northeast coincides with these economic considerations. It is not known whether Moscow, which has largely determined the nature and scope of China's entire construction program, was responsible for a Chinese decision to concentrate an even higher proportion of the program on Manchuria than was originally envisaged.

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The limited intelligence on the size of Manchuria's industrial projects suggests that the area's industrial output should at least double during the first five-year plan, although Peiping has made no specific statements on its industrial goals. The electrification program is expected to increase Manchurian power output from four billion kilowatt hours in 1952 to about ten billion in 1957. A substantial expansion of the iron and steel, chemical, oil and machinery industries is also under way.

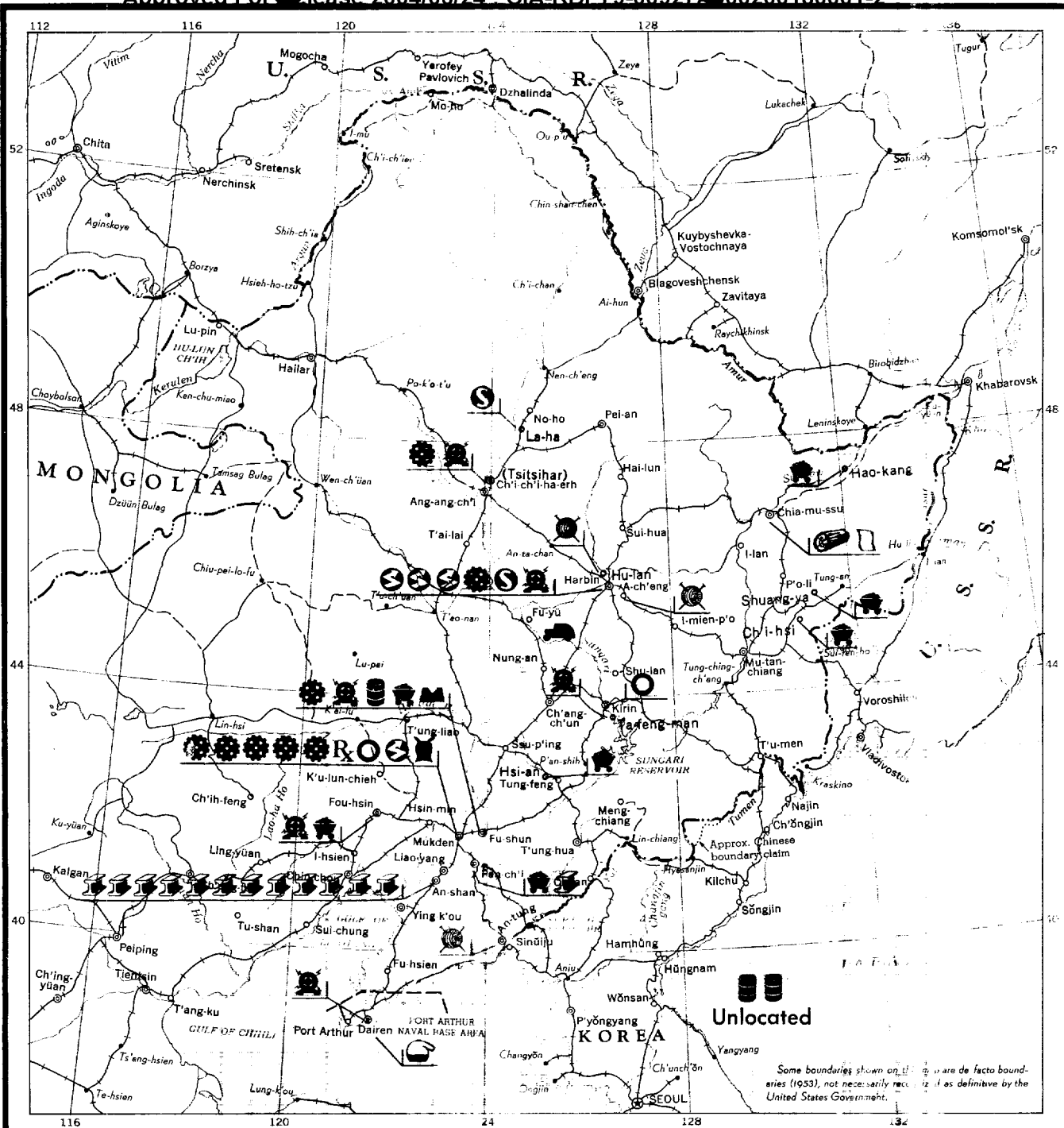
Manchuria has a greater agricultural output per capita than any other area of China, thus making it better able to support the construction program. The agricultural yield, which already provides a large part of China's exports, was to increase from 21,000,000 metric tons in 1952, to 40,000,000 in 1957, according to plans made in late 1952. This five-year plan has been set back by an admitted drop to 18,600,000 tons in its first year, and only 22,300,000 tons are planned for 1954 output. Therefore the 40,000,000-ton goal seems impossible to attain. By 1957, nevertheless, the area's export surpluses probably will be substantially larger than at present, a situation which will not hold true for China proper.

The Soviet position in Manchuria is a special and delicate one. Traditional Russian interests in Manchurian railroads, the Dairen shipyard, Manchurian resources and military bases remain strong. The Manchurian rail net is essential to the USSR in maintaining its interests in North Korea and the Port Arthur naval base area, and for a short route from European Russia to Vladivostok. The Port Arthur naval and naval air installation with its more than 60,000 troops is one of the Soviet Union's largest military bases, and its southernmost, in the Far East.

The USSR negotiates increasingly through Peiping to protect its interests in Manchuria. The Northeast Administration, one of six regional committees established throughout China, is firmly under Peiping's control, and politburo member Kao Kang, now resident in Peiping as chairman of the State Planning Committee, apparently continues to direct Manchurian affairs.

The jointly operated Chinese Changchun Railway was officially turned over to China and integrated into its railway system in early 1953, although many Soviet advisers remain. Similarly, most of the Soviet-operated factories in Dairen, turned over in early 1951, have been incorporated into various Chinese industrial ministries, although much of their output is still exported to the USSR, apparently on a long-term contract.

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## NORTHEAST CHINA

## MAJOR INDUSTRIAL CONSTRUCTION PROJECTS UNDER WAY OR COMPLETED SINCE 1952

- 13 Iron and Steel**  
**1 Aluminum**  
**1 Chemical**  
**1 Cement**
- 8 General Machinery**  
**4 Electrical Machinery**  
**1 Motor Vehicle**
- 6 Power**  
**7 Coal**  
**3 Petroleum**
- 3 Textile**  
**1 Lumber**  
**1 Paper**
- 2 Rubber**  
**2 Sugar**  
**1 Pharmaceutical**
- SINCE 1952**
- International boundary  
 - - - Selected road  
 - - - Selected trail  
 + + + Selected railroad

Scale: 1:10,500,000

0 100 200 300 Miles

0 100 200 300 Kilometers

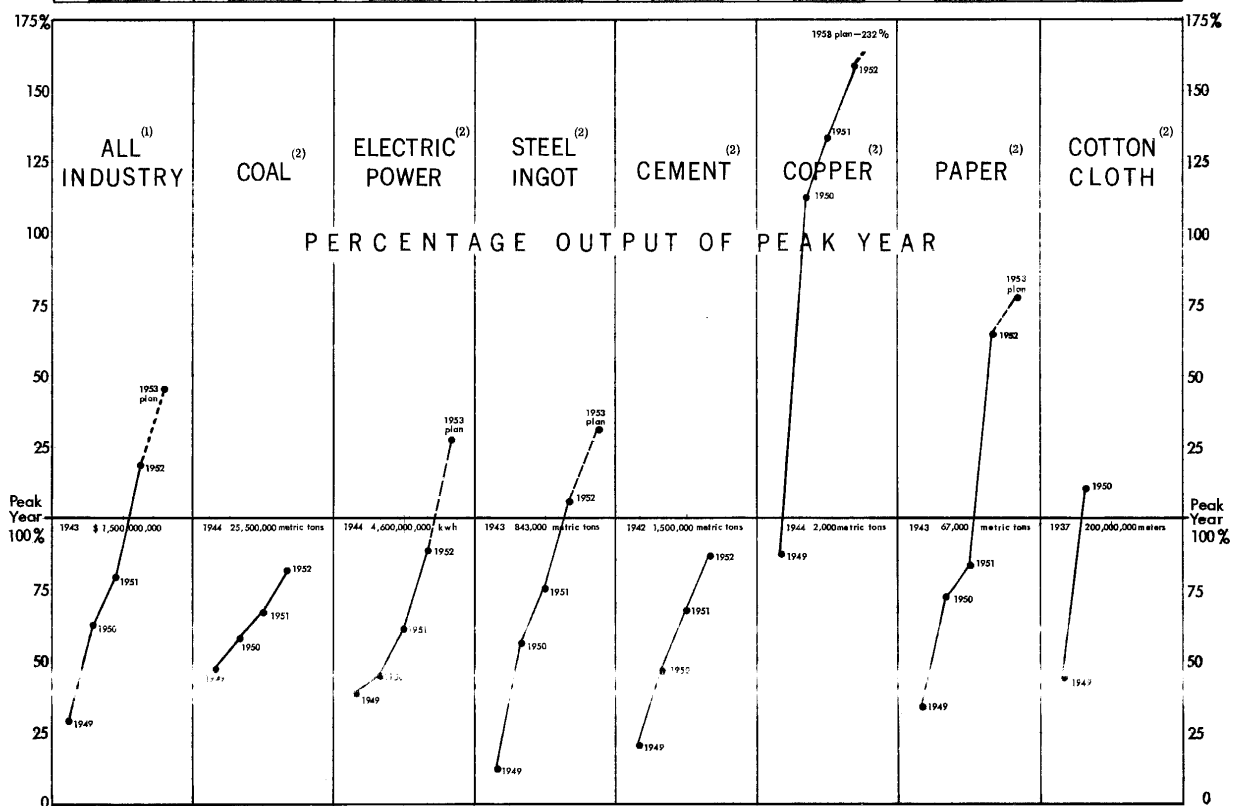
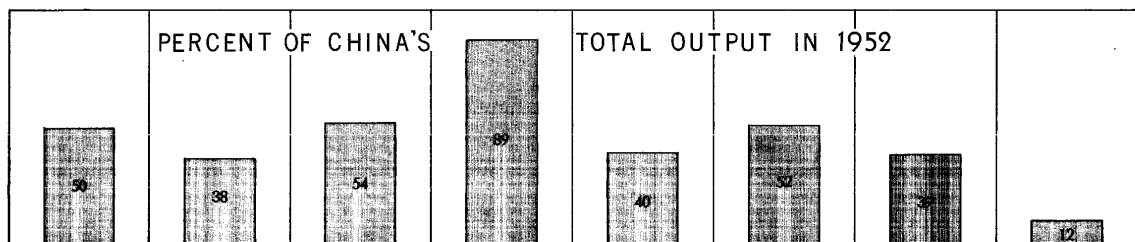
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## MANCHURIAN INDUSTRIAL OUTPUT



(1) Chinese Communist comparisons of the value of overall industrial output with the past peak year of 1943. These comparisons use 1943 as the base year because prices of industrial goods are relatively higher now than in 1943.

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